



CALEDONIA COMMUNITY SCHOOLS

**FINANCIAL STATEMENTS
AND
SINGLE AUDIT REPORT**

FOR THE YEAR ENDED JUNE 30, 2006

CALEDONIA COMMUNITY SCHOOLS

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**CALEDONIA COMMUNITY SCHOOLS
ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2006**

SCHOOL BOARD MEMBERS

Robert Bergy	President
Ken Yonker	Vice-President
Debra McCarty	Secretary
Pat Johnson	Treasurer
Dennis Atkinson	Trustee
Robert Lillie	Trustee

SUPERINTENDENT

Jerry Phillips



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

November 1, 2006

Board of Education
Caledonia Community Schools
Caledonia, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Caledonia Community Schools*** (the "District"), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Caledonia Community Schools as of June 30, 2006, and the respective changes in financial position, and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2006 on our consideration of Caledonia Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Caledonia Community Schools' basic financial statements. The combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of Caledonia Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Caledonia Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

As management of Caledonia Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

- State aid increased as a result of the addition of 177 new students in the District.
- Glenmor Alternative High School opened.
- All current bond projects were completed for the 2005-2006 school year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including budgetary schedules and combining statements for non-major and fiduciary funds.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, food services, athletics, child care and community services. The District has no business-type activities as of and for the year ended June 30, 2006.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains thirteen individual governmental and one agency funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and 2000 Bond capital projects fund which are considered to be a major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 11-15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Caledonia Community Schools' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-29 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 30-38 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$1,530,500 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of fixed assets has a significant impact on this balance.

A portion of the District's net assets is restricted for capital projects and represents interest on Bond proceeds in the amount of \$34,770. A deficit is reported for unrestricted net assets. The deficit balance is reported primarily due to interest accruing on capital appreciation bonds.

Caledonia Community School's Net Assets

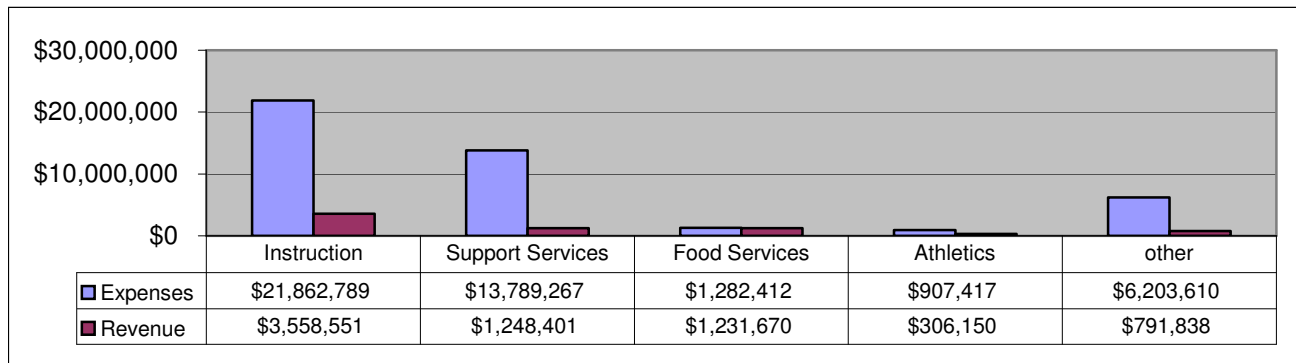
	2005-2006 Governmental Activities	2004-2005 Governmental Activities
Current and other assets	\$ 7,470,758	\$11,113,063
Capital assets, net	<u>95,027,561</u>	<u>95,803,181</u>
Total assets	<u>102,498,319</u>	<u>106,916,244</u>
Current liabilities	11,006,535	12,623,134
Long-term liabilities outstanding	<u>93,388,592</u>	<u>95,823,610</u>
Total liabilities	<u>104,369,550</u>	<u>108,446,744</u>
Net assets:		
Invested in capital assets, net of related debt	4,619,822	(1,932,193)
Restricted	34,770	2,913,901
Unrestricted	<u>(5,525,823)</u>	<u>(2,512,208)</u>
Total net assets	<u>\$(1,871,231)</u>	<u>\$(1,530,500)</u>

Caledonia Community School's Changes in Net Assets

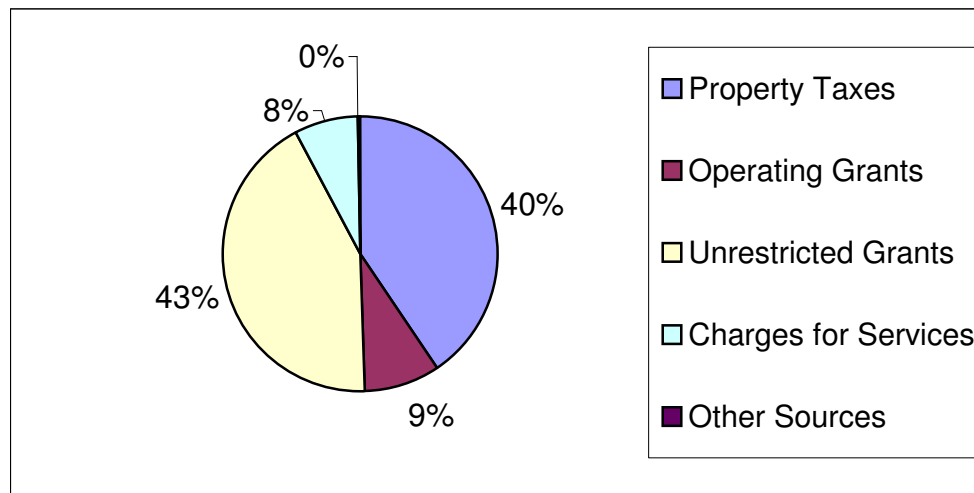
	2005-2006 Governmental Activities	2004-2005 Governmental Activities
Program revenue:		
Charges for services	\$ 3,289,539	\$ 3,608,559
Operating grants and contributions	3,847,071	3,258,199
General revenue:		
Property taxes - operations	9,704,811	9,085,881
Property taxes - debt service	7,944,719	7,504,328
Grants and contributions not restricted to specific programs	18,691,923	17,591,022
Unrestricted investment earnings	<u>112,927</u>	<u>64,972</u>
Total revenue	<u>43,590,990</u>	<u>41,112,961</u>
Expenses:		
Instruction	21,862,789	20,833,846
Supporting services	13,789,267	12,919,647
Food services	1,282,412	1,173,586
Athletics	907,417	861,723
Child care	528,715	676,651
Community Service	206,242	201,115
Interest on long-term debt	<u>5,468,653</u>	<u>4,237,914</u>
Total expenses	<u>44,045,495</u>	<u>40,904,482</u>
Increase (decrease) in net assets	(454,505)	208,479
Net assets (deficit), beginning of year, as restated	<u>(1,416,726)</u>	<u>(1,625,205)</u>
Net assets (deficit), end of year	<u>\$(1,871,231)</u>	<u>\$(1,416,726)</u>

Governmental activities. Net assets decreased by \$454,205. Key elements of this increase are as follows:

Expenses and Program Revenues – Government-wide



Revenues by Source – Government-wide



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved and undesignated total fund balance of the general fund was \$3,671,076. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 11.23% and 12.26% respectively of total general fund expenditures and transfers out.

The fund balance of the District's general fund increased by \$506,902 during the current fiscal year.

The 2000 Bonds capital projects fund decreased substantially due to the construction activity for which the 2000 bonds were issued

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor and related primarily to changes to state and local revenue due to increased pupil counts and property tax revenue.

Capital Asset and Debt Administration

- **Capital assets** – The District's investment in capital assets for its governmental type activities as of June 30, 2006 amounted to \$95,027,561 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Caledonia Community School's Capital Assets

(net of depreciation)

June 30, 2006

Land	\$ 1,850,380
Land Improvements	705,777
Buildings and improvements	80,941,228
Machinery and equipment	9,951,202
Vehicles	<u>1,578,974</u>
Total	<u>\$95,027,561</u>

Additional information on the District's capital assets can be found in Note 6 on page 24 of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$97,093,147.

The District's total bonded debt decreased by \$2,846,009 during the current fiscal year.

Additions to the Michigan School Bond Loan debt included \$142,784 in principal and \$198,639 in additional accrued interest.

Additional information on the District's long-term debt can be found in Note 8 on pages 26 and 27 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2005-2006 fiscal year:

- An increasing pupil count was used because of the growth in the area (average 80 students).
- An anticipated increase in the state foundation grant of \$225 per student.
- Teachers at the secondary level donated 23 minutes of planning time for instructional time for two years out. This generated a savings of 6.5 teachers that did not have to be hired.
- Wage, retirement and insurance costs were budgeted according to negotiated contracts..

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ron Archer
Finance Manager
Caledonia Community Schools
203 E. Main Street
Caledonia, MI 49316

Caledonia Community Schools
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,849,661
Investments	115,086
Accounts receivable	917
Due from other governmental units	4,150,066
Inventories	58,880
Prepaid items	296,148
Total current assets	<u>7,470,758</u>
Non-current assets:	
Land	1,850,380
Capital assets being depreciated	122,618,981
Less accumulated depreciation	(29,441,800)
Total non-current assets	<u>95,027,561</u>
Total assets	<u>102,498,319</u>
Liabilities	
Current liabilities:	
Accounts payable	526,986
Accrued expenses	2,172,229
Accrued interest on long-term debt	5,109,885
Due to other governmental units	71,083
Unearned revenue	11,664
Current portion of long-term debt	3,114,688
Total current liabilities	<u>11,006,535</u>
Non-current liabilities:	
Compensated absences/early retirement, net of current portion	767,989
Bonds payable, net of current portion	92,595,026
Total non-current liabilities	<u>93,363,015</u>
Total liabilities	<u>104,369,550</u>
Net assets (deficit)	
Invested in capital assets, net of related debt	4,619,822
Restricted for capital projects	34,770
Unrestricted (deficit)	<u>(6,525,823)</u>
Total net assets (deficit)	<u><u>\$ (1,871,231)</u></u>

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Statement of Activities
For the Year Ended June 30, 2006

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$21,862,789	\$ 28,169	\$ 3,528,707	\$ (18,304,238)
Supporting services	13,789,267	1,151,039	97,361	(12,540,867)
Food services	1,331,997	1,015,885	265,370	(50,742)
Athletics	907,417	306,150	-	(601,267)
Child care	528,715	521,896	-	(6,819)
Community services	206,242	269,942	-	63,700
Interest on long-term debt	5,468,653	-	-	(5,468,653)
Total governmental activities	<u>\$44,095,079</u>	<u>\$ 3,293,081</u>	<u>\$ 3,891,438</u>	<u>(36,908,885)</u>
General revenues				
Property taxes - operations				9,704,811
Property taxes - debt service				7,944,719
Grants and contributions not restricted to specific programs				18,691,923
Unrestricted investment earnings				<u>112,927</u>
Total general revenues				<u>36,454,380</u>
Change in net assets				(454,505)
Net assets (deficit), beginning of year, as restated				<u>(1,416,726)</u>
Net assets (deficit), end of year				<u><u>\$ (1,871,231)</u></u>

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Balance Sheet
Governmental Funds
June 30, 2006

	General	Capital Projects 2000 Bonds	Non- Major Funds	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,251,236	\$ -	\$ 598,425	\$ 2,849,661
Investments	2,804	112,282	-	115,086
Accounts receivable	-	-	917	917
Due from other governmental units	4,142,870	-	7,196	4,150,066
Due from other funds	34,502	-	85,242	119,744
Inventories	36,535	-	22,345	58,880
Prepays items	296,148	-	-	296,148
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 6,764,095</u>	<u>\$ 112,282</u>	<u>\$ 714,125</u>	<u>\$ 7,590,502</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 449,474	\$ 77,512	\$ -	\$ 526,986
Accrued expenses	2,172,229	-	-	2,172,229
Due to other funds	67,550	-	52,194	119,744
Due to other governments	71,083	-	-	71,083
Deferred revenue	-	-	11,664	11,664
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>2,760,336</u>	<u>77,512</u>	<u>63,858</u>	<u>2,901,706</u>
Fund balances				
Reserved for:				
Inventories	36,535	-	22,345	58,880
Prepaid items	296,148	-	-	296,148
Unreserved, undesignated, reported in:				
General fund	3,671,076	-	-	3,671,076
Special revenue funds	-	-	227,338	227,338
Debt service funds	-	-	400,584	400,584
Capital projects funds	-	34,770	-	34,770
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>4,003,759</u>	<u>34,770</u>	<u>650,267</u>	<u>4,688,796</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 6,764,095</u>	<u>\$ 112,282</u>	<u>\$ 714,125</u>	<u>\$ 7,590,502</u>

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$ 4,688,796
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	124,469,361
Deduct - accumulated depreciation	(29,441,800)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds & contracts payables	(91,023,183)
Deduct - accrued interest on bonds payable	(5,109,885)
Deduct - balance owed to Michigan School Bond Loan Fund	(5,095,541)
Deduct - compensated absences and retirement incentive	(974,423)
Add - unamortized premiums and discounts on bonds payable	615,444

Net assets of governmental activities	<u><u>\$ (1,871,231)</u></u>
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The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Capital Projects 2000 Bonds	Non- Major Funds	Total
Revenue				
Local sources	\$ 12,435,370	\$ 77,504	\$ 10,105,378	\$ 22,618,252
State sources	19,921,747	-	38,092	19,959,839
Federal sources	797,113	-	265,370	1,062,483
Total revenue	33,154,230	77,504	10,408,840	43,640,574
Expenditures				
Current:				
Instruction	19,966,649	-	-	19,966,649
Supporting services	12,163,741	-	-	12,163,741
Food services	-	-	1,331,997	1,331,997
Athletics	-	-	767,627	767,627
Child care	-	-	528,715	528,715
Community services	-	-	206,242	206,242
Debt service:				
Principal	44,910	-	2,801,099	2,846,009
Interest	1,347	-	5,353,976	5,355,323
Capital outlay	-	2,956,635	-	2,956,635
Total expenditures	32,176,647	2,956,635	10,989,656	46,122,938
Revenue over (under) expenditures	977,583	(2,879,131)	(580,816)	(2,482,364)
Other financing sources (uses)				
Issuance of bonds	-	-	142,784	142,784
Proceeds from sale of capital assets	18,318	-	-	18,318
Transfers in	-	-	488,999	488,999
Transfers out	(488,999)	-	-	(488,999)
Total other financing sources (uses)	(470,681)	-	631,783	161,102
Net changes in fund balances	506,902	(2,879,131)	50,967	(2,321,262)
Fund balances, beginning of year	3,496,857	2,913,901	599,300	7,010,058
Fund balances, end of year	\$ 4,003,759	\$ 34,770	\$ 650,267	\$ 4,688,796

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ (2,321,262)
--------------------------------------------------------	----------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	3,316,253
Deduct - depreciation expense	(4,175,317)
Deduct - net book value of disposed capital assets	(30,330)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deduct - amortization of bond discounts	(34,191)
-----------------------------------------	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Add - principal payments on long-term liabilities	2,846,009
Deduct - Principal and interest additions to Michigan School Bond Loan Fund	(341,423)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in the long-term portion of accrual for retirement incentive	206,434
Add - decrease in accrued interest payable on bonds	119,500
Deduct - increase in the accrual for compensated absences	(40,178)

Change in net assets of governmental activities	<u><u>\$ (454,505)</u></u>
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The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Statement of Revenue, Expenditures
and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Budget			Variance -
	Original	Amended	Actual	Over
				(Under)
Revenue				
Local sources	\$ 10,927,027	\$ 11,933,638	\$ 12,435,370	\$ 501,732
State sources	19,710,433	19,817,177	19,921,747	104,570
Federal sources	788,994	829,690	797,113	(32,577)
Total revenue	31,426,454	32,580,505	33,154,230	573,725
Expenditures				
Current:				
Instructional	18,158,574	19,801,105	19,966,649	165,544
Supporting services	12,390,115	11,569,014	12,163,741	594,727
Debt service				
Principal		45,000	44,910	(90)
Interest	5,000	1,500	1,347	(153)
Total expenditures	30,553,689	31,416,619	32,176,647	760,028
Revenue over (under) expenditures	872,765	1,163,886	977,583	(186,303)
Other financing sources (uses)				
Proceeds from sale of capital assets	10,500	10,500	18,318	7,818
Transfers out	(470,167)	(450,679)	(488,999)	(38,320)
Total other financing sources (uses)	(459,667)	(440,179)	(470,681)	(30,502)
Net changes in fund balance	413,098	723,707	506,902	(216,805)
Fund balance, beginning of year	3,496,857	3,496,857	3,496,857	-
Fund balance, end of year	\$ 3,909,955	\$ 4,220,564	\$ 4,003,759	\$ (216,805)

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Statement of Fiduciary Assets And Liabilities
Agency Fund
June 30, 2006

	<u>Student Activities</u>
Assets	
Cash and cash equivalents	<u><u>\$ 459,221</u></u>
Liabilities	
Due to student groups	<u><u>\$ 459,221</u></u>

The accompanying notes are an integral part of these financial statements.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Caledonia Community Schools (the “District”) consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Caledonia Community Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized when identifying the District reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund uses the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Property taxes, expenditure-driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects 2000 bonds fund* accounts for the construction of major capital projects, which are primarily funded by resources provided by the bonds issued during 2000.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for property tax and servicing of bonded debt.

The *agency fund* accounts for resources held on the behalf of other individuals and governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data as reflected in the financial statements.

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2006. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the District Board.

Encumbrances

The District does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2005 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year-end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Inventories

Inventories consist of food commodities and other supplies. Inventories are stated at cost (first-in, first-out).

Investments

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

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- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
 - c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
 - d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
 - e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
 - f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Receivables

The District follows the practice of recording as receivables revenues that have been earned but not yet received.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7-50
Machinery and equipment	5-20
Vehicles	12

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Accrued Expenses

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are capitalized and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Vested Termination Benefits

Most employees of the District are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 61% of general fund revenue to the District during the 2006 fiscal year.

3. DEFICIT FUND EQUITY

At June 30, 2006, the District had a deficit fund balance in the 2005 Bonds debt service fund of \$14,391. Management plans to eliminate the deficit fund balance through the recognition of revenues in subsequent years.

4. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2006 the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Major Fund:			
General Fund			
Basic Programs	\$ 15,423,616	\$ 15,709,820	\$ 286,204
Alternative education	225,440	236,149	10,709
Pupil Services	457,785	4941,679	33,894
Instructional Staff	616,162	632,812	16,650
General Administration	679,611	662,014	17,597
School Administration	2,148,964	2,258,750	109,786
Operations and Maintenance	4,136,544	4,211,299	74,755
Pupil Transportation	1,982,161	2,091,614	109,453
Central Services	786,654	807,893	21,239
Payments to Other Schools	253,534	514,860	261,326
Transfers out	450,679	488,999	38,320
Non-major Funds:			
Food Services Fund			
Support services	1,181,923	1,282,412	100,489
Athletics Fund			
Support services	744,133	767,627	23,494

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

5. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 2,849,661	\$ 459,221	\$3,308,882
Investments	115,086	-	115,086
	<u>\$ 2,964,747</u>	<u>\$ 459,221</u>	<u>\$3,423,968</u>

These deposits are in two (2) financial institutions located in Michigan. State policy limits the District's deposit options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

Investments

	Maturity	Fair Value	Rating
MILAF Cash Management Funds	N/A	\$ 112,282	AAAm
Standard Federal Public Funds Investment Trust	N/A	<u>2,804</u>	AAAm
		<u>\$ 115,086</u>	

The above investments do not include certificates of deposit or various other deposits which are classified as investments for financial statement purposes.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end, as applicable.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the District's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$3,521,295 of the District's bank balance of \$3,621,295 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above mutual fund investments, the District's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

6. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Dispositions	Balance June 30, 2006
Governmental activities				
Nondepreciable capital assets:				
Land	\$ 1,490,560	\$ 359,820	\$ -	\$ 1,850,380
Construction in progress	317,930	1,226,070	1,544,000	-
Total nondepreciable capital assets	1,808,490	1,585,890	1,544,000	1,850,380
Depreciable capital assets:				
Land improvements	-	705,777	-	705,777
Buildings and improvements	96,487,363	2,104,814	-	98,592,177
Machinery and equipment	20,076,535	463,772	-	20,540,307
Vehicles	2,951,495	-	170,775	2,780,720
Total depreciable capital assets	119,515,393	3,274,363	170,775	122,618,981
Less accumulated depreciation:				
Land improvements	-	-	-	-
Buildings and improvements	15,364,119	2,286,830	-	17,650,949
Machinery and equipment	8,932,345	1,656,760	-	10,589,105
Vehicles	1,110,464	231,727	140,445	1,201,746
Total accumulated depreciation	25,406,928	4,175,317	140,445	29,441,800
Total capital assets being depreciated, net	94,108,465	(900,954)	30,330	93,177,181
Government activities capital Assets, net	\$95,916,955	\$ 684,936	\$ 1,574,330	\$95,027,561

For governmental activities, depreciation expense was charged to functions as follows:

Instruction	\$2,285,466
Supporting services	1,750,061
Athletics	139,790
Governmental activities depreciation expense	\$4,175,317

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

Transfers primarily reflect subsidies allocated from the General Fund.

	<u>In</u>	<u>Out</u>
Interfund Transfers		
General Fund	\$ -	\$ 488,999
Nonmajor Fund:		
Athletics special revenue	488,999	-
Total	\$ 488,999	\$ 488,999

Interfund balance represents the result of interfund transactions for which cash has not yet been transferred between funds.

	<u>Due From</u>	<u>Due To</u>
Interfund Balances		
General Fund	\$ 34,502	\$ 67,550
Nonmajor funds:		
Food service special revenue	75,436	34,502
Child Care special revenue	-	7,886
Debt Service 1992	-	1,362
Debt Service 1996	-	6,290
Debt Service 1999	-	2,154
Debt Service 2000	4,828	-
Debt Service 2003	4,978	-
	\$ 119,744	\$ 119,744

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

8. LONG-TERM DEBT

The following is a summary of debt transactions of the District for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
1992 Capital Appreciation Bond due in amounts ranging from \$549,700 through \$578,254 plus interest at 5.6% - 6.55% through 2010	\$ 2,864,282	\$ -	\$ 571,099	\$ 2,293,183	\$ 578,254
1996 Bonds due in amounts ranging from \$535,000 through \$560,000 plus interest at 4.95% - 6.25% through 2007	1,100,000	-	560,000	540,000	540,000
1999 Bonds due in amounts ranging from \$65,000 through \$2,045,000 plus interest at 3.80 - 4.95% through 2022	16,770,000	-	50,000	16,720,000	65,000
2000 Bonds (remaining portion after 2006 Refunding due in amounts ranging from \$1,450,000 through \$1,475,000 plus interest at 4.55% - 4.80% through 2010	7,275,000	-	1,450,000	5,825,000	1,450,000
2003 Refunding Bonds due in amounts ranging from \$160,000 through \$2,430,000 plus interest at 2.00 – 5.25% through 2022	27,740,000	-	170,000	27,570,000	175,000
2006 Refunding Bonds due in amounts ranging from \$100,000 to \$3,385,000 plus interest at 3.00 – 5.00% through 2025	38,075,000	-	-	38,075,000	100,000
Installment purchase contracts due in amounts ranging from \$20,000 to \$25,000 plus interest at 6.0% through 2006	44,910	-	44,910	-	-
Total installment debt	93,869,192	-	2,846,009	91,023,183	2,908,254
Unamortized discounts on bonds payable	(649,635)	-	34,191	(615,444)	-
Michigan School Bond Loan Fund	4,754,118	341,423	-	5,095,541	-
Early retirement incentive	571,334	-	206,434	364,900	206,434
Compensated absences	569,345	40,178	-	609,523	-
Total long-term debt	99,114,354	381,601	3,086,634	96,477,703	<u>\$ 3,114,688</u>
Less amounts reported in Current liabilities – current portion of long-term debt	-	-	-	(3,114,688)	-
Long-term debt – net of current portion	\$99,114,354	\$381,601	\$3,086,634	\$93,978,459	

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Following is a summary of future principal maturities and interest requirements, excluding the Michigan School Bond Loan Fund early retirement incentives, and compensated absences:

Years Ending June 30	Bonds	
	Principal	Interest
2007	\$ 2,908,254	\$ 5,266,884
2008	2,879,828	5,293,839
2009	2,837,496	5,331,472
2010	2,787,605	5,376,677
2011	4,240,000	3,914,493
2012-2016	24,205,000	16,518,386
2017-2021	30,710,000	9,895,608
2022-2026	20,455,000	2,706,498
	<u>\$ 91,023,183</u>	<u>\$ 54,303,857</u>

Compensated absences and the early retirement incentives are expected to be liquidated by the general fund.

The Michigan School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the Michigan School Bond Loan Fund for the year ended June 30, 2006, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 4,515,817	\$ 238,301	\$ 4,754,118
Additions	142,784	198,639	341,423
Deletions	-	-	-
Ending balance	<u>\$ 4,658,601</u>	<u>\$ 436,940</u>	<u>\$ 5,095,541</u>

In prior years, Caledonia Community Schools advance refunded certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the refunded bonds. The advance refunding resulted in a defeasance of the refunded bonds. The trust account assets and the liability for the defeased bonds are not included in the Caledonia Community Schools financial statements. At June 30, 2006, \$55,455,000 of bonds outstanding are considered defeased.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

9. PUBLIC ENTITY RISK (INSURANCE) POOL – SELF-INSURANCE PLAN

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the District carried commercial insurance and participated in the West Michigan insurance trust. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

10. RETIREMENT PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate was 16.43% for July 1, 2005 to September 30, 2006 of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2006, 2005 and 2004 were \$2,928,436, \$2,616,363, and \$2,348,452, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

11. CONTINGENCIES

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

12. CAPITAL PROJECTS

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of 1351(a) of the Revised School Code.

13. RESTATEMENTS

The net assets of governmental activities was increased by \$113,774 as of July 1, 2005 due to an addition of two school buses that were purchased in 2004, but did not appear on the District's capital asset listing at June 30, 2005, offset by an appropriate amount of accumulated depreciation.

* * * * *

Caledonia Community Schools
General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2006

	Amended Budget	Actual	Variance - Over (Under)
Revenue			
Local sources:			
Property taxes	\$ 9,658,014	\$ 9,704,811	\$ 46,797
Tuition	-	-	-
Earnings on investments	99,000	108,812	9,812
Special education tuition	13,000	19,114	6,114
Special education through ISD	1,412,242	1,412,243	1
Miscellaneous	751,382	1,190,390	439,008
Total local sources	11,933,638	12,435,370	501,732
State sources:			
State Aid - unrestricted	18,805,656	18,873,926	68,270
At risk	-	36,300	36,300
Special education	975,608	975,608	-
Vocational education	35,913	35,913	-
Other grant	-	-	-
Driver education	-	-	-
Total state sources	19,817,177	19,921,747	104,570
Federal sources:			
Federal aid received through the state -			
Title I	87,783	76,679	(11,104)
Title II	82,119	75,384	(6,735)
Special Education	648,957	632,545	(16,412)
Other	10,831	12,505	1,674
Total federal sources	829,690	797,113	(32,577)
Total revenue	32,580,505	33,154,230	573,725

Caledonia Community Schools
General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2006

	Amended Budget	Actual	Variance - Over (Under)
Expenditures			
Instruction:			
Basic programs			
Preschool	\$ -	\$ 15,025	\$ 15,025
Elementary	7,502,368	7,767,193	264,825
Middle School	4,002,169	3,967,207	(34,962)
High School	3,919,079	3,960,395	41,316
Total Basic Programs	15,423,616	15,709,820	286,204
Added Needs			
Special Education	3,735,574	3,639,191	(96,383)
Compensatory Education	120,239	76,679	(43,560)
Vocational Education	296,236	304,810	8,574
Total Added Needs	4,152,049	4,020,680	(131,369)
Adult/Continuing Education			
Alternative education	225,440	236,149	10,709
Total instruction	19,801,105	19,966,649	165,544
Supporting Services:			
Pupil Services			
Guidance Services	315,961	318,188	2,227
Health Services	400	240	(160)
Psychological services	100	98	(2)
Speech Services	400	303	(97)
Social Work Services	400	203	(197)
Other Pupil Services	140,524	172,647	32,123
Total Pupil Services	457,785	491,679	33,894
Instructional Staff			
Improvement of Instruction	16,959	73,780	56,821
Library	352,559	342,548	(10,011)
Supervision and Direction	246,644	216,484	(30,160)
Total Instructional Staff	616,162	632,812	16,650
General Administration			
General Administration	158,059	164,780	6,721
Executive Administration	521,552	497,234	(24,318)
Total General Administration	679,611	662,014	(17,597)

Caledonia Community Schools
General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2006

	Amended Budget	Actual	Variance - Over (Under)
Expenditures (concluded)			
Supporting Services: (concluded)			
School Administration			
Office of the Principal	\$ 2,148,964	\$ 2,258,750	\$ 109,786
Business/Fiscal Services	507,599	492,820	(14,779)
Operation and Maintenance	4,136,544	4,211,299	74,755
Pupil Transportation	1,982,161	2,091,614	109,453
Central Services			
Technology Services	366,579	359,946	(6,633)
Staff/Personnel services	413,925	442,514	28,589
Other Central Services	6,150	5,433	(717)
Total Central Services	786,654	807,893	21,239
Payments to other schools	253,534	514,860	261,326
Total supporting services	11,569,014	12,163,741	594,727
Debt Service:			
Principal	45,000	44,910	(90)
Interest	1,500	1,347	(153)
Total debt service	46,500	46,257	(243)
Total expenditures	31,416,619	32,176,647	760,028
Revenue over (under) expenditures	1,163,886	977,583	(186,303)
Other financing sources (uses)			
Proceeds from sale of capital assets	10,500	18,318	7,818
Transfers out	(450,679)	(488,999)	(38,320)
Total other financing sources (uses)	(440,179)	(470,681)	(30,502)
Net changes in fund balance	723,707	506,902	(216,805)
Fund balance, beginning of year	3,496,857	3,496,857	-
Fund balance, end of year	\$ 4,220,564	\$ 4,003,759	\$ (216,805)

Caledonia Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue				Debt Service
	Food Service	Athletics	Child Care	Community Services	1992 Bonds
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 15,282	\$ 30,794	\$ 64,244	\$ 87,521	\$ 82,570
Accounts receivable	917	-	-	-	-
Due from other governmental units	7,196	-	-	-	-
Due from other funds	75,436	-	-	-	-
Inventories	22,345	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 121,176</u>	<u>\$ 30,794</u>	<u>\$ 64,244</u>	<u>\$ 87,521</u>	<u>\$ 82,570</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities					
Due to other funds	\$ 34,502	\$ -	\$ 7,886	\$ -	\$ 1,362
Deferred revenue	11,664	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>46,166</u>	<u>-</u>	<u>7,886</u>	<u>-</u>	<u>1,362</u>
Fund balances (deficit)					
Reserved for inventories	22,345	-	-	-	-
Unreserved, undesignated	52,665	30,794	56,358	87,521	81,208
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances (deficit)	<u>75,010</u>	<u>30,794</u>	<u>56,358</u>	<u>87,521</u>	<u>81,208</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances (deficit)	<u>\$ 121,176</u>	<u>\$ 30,794</u>	<u>\$ 64,244</u>	<u>\$ 87,521</u>	<u>\$ 82,570</u>

Caledonia Community Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue				Debt Service
	Food Service	Athletics	Child Care	Community Services	1992 Bonds
Revenue					
Local sources	\$ 977,793	\$ 306,150	\$ 524,129	\$ 271,824	\$ 1,445,065
State sources	38,092	-	-	-	-
Federal sources	265,370	-	-	-	-
Total revenue	1,281,255	306,150	524,129	271,824	1,445,065
Expenditures					
Current:					
Food service	1,331,997	-	-	-	-
Athletics	-	767,627	-	-	-
Child care	-	-	528,715	-	-
Community services	-	-	-	206,242	-
Debt service:					
Principal	-	-	-	-	571,099
Interest	-	-	-	-	825,251
Total expenditures	1,331,997	767,627	528,715	206,242	1,396,350
Revenue over (under) expenditures	(50,742)	(461,477)	(4,586)	65,582	48,715
Other financing sources (uses)					
Issuance of Bonds	-	-	-	-	-
Transfers in	-	488,999	-	-	-
Total other financing sources (uses)	-	488,999	-	-	-
Net changes in fund balances	(50,742)	27,522	(4,586)	65,582	48,715
Fund balance, beginning of year	125,752	3,272	60,944	21,939	32,493
Fund balance (deficit), end of year	<u>\$ 75,010</u>	<u>\$ 30,794</u>	<u>\$ 56,358</u>	<u>\$ 87,521</u>	<u>\$ 81,208</u>

Debt Service					
1996 Bonds	1999 Bonds	2000 Bonds	2003 Bonds	2005 Bonds	Total
\$ 664,584	\$ 870,927	\$ 1,808,870	\$ 1,605,316	\$ 1,630,720	\$ 10,105,378
-	-	-	-	-	38,092
-	-	-	-	-	265,370
664,584	870,927	1,808,870	1,605,316	1,630,720	10,408,840
-	-	-	-	-	1,331,997
-	-	-	-	-	767,627
-	-	-	-	-	528,715
-	-	-	-	-	206,242
560,000	50,000	1,450,000	170,000	-	2,801,099
69,470	794,629	343,226	1,374,458	1,946,942	5,353,976
629,470	844,629	1,793,226	1,544,458	1,946,942	10,989,656
35,114	26,298	15,644	60,858	(316,222)	(580,816)
-	-	-	-	142,784	142,784
-	-	-	-	-	488,999
-	-	-	-	142,784	631,783
35,114	26,298	15,644	60,858	(173,438)	50,967
12,109	20,807	114,470	48,467	159,047	599,300
\$ 47,223	\$ 47,105	\$ 130,114	\$ 109,325	\$ (14,391)	\$ 650,267

Caledonia Community Schools
Food Service Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budget			Variance -
	Original	Amended	Actual	Over
				(Under)
Revenue				
Local sources:				
Lunch sales	\$ 984,000	950,500	\$ 966,150	\$ 15,650
Other	3,000	7,500	11,643	4,143
Total local sources	987,000	958,000	977,793	19,793
State sources	-	34,549	38,092	3,543
Federal sources	220,000	193,000	265,370	72,370
Total revenue	1,207,000	1,185,549	1,281,255	95,706
Expenditures				
Supporting services	1,205,000	1,181,923	1,331,997	150,074
Net changes in fund balances	2,000	3,626	(50,742)	(54,368)
Fund balances, beginning of year	125,752	125,752	125,752	-
Fund balances, end of year	\$ 127,752	\$ 129,378	\$ 75,010	\$ (54,368)

Debt Service					
1996 Bonds	1999 Bonds	2000 Bonds	2003 Bonds	2005 Bonds	Total
\$ 53,513	\$ 49,259	\$ 125,286	\$ 104,347	\$ (14,391)	\$ 598,425
-	-	-	-	-	917
-	-	-	-	-	7,196
-	-	4,828	4,978	-	85,242
-	-	-	-	-	22,345
<u>\$ 53,513</u>	<u>\$ 49,259</u>	<u>\$ 130,114</u>	<u>\$ 109,325</u>	<u>\$ (14,391)</u>	<u>\$ 714,125</u>
\$ 6,290	\$ 2,154	\$ -	\$ -	\$ -	\$ 52,194
-	-	-	-	-	11,664
<u>6,290</u>	<u>2,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,858</u>
-	-	-	-	-	22,345
<u>47,223</u>	<u>47,105</u>	<u>130,114</u>	<u>109,325</u>	<u>(14,391)</u>	<u>627,922</u>
<u>47,223</u>	<u>47,105</u>	<u>130,114</u>	<u>109,325</u>	<u>(14,391)</u>	<u>650,267</u>
<u>\$ 53,513</u>	<u>\$ 49,259</u>	<u>\$ 130,114</u>	<u>\$ 109,325</u>	<u>\$ (14,391)</u>	<u>\$ 714,125</u>

Caledonia Community Schools
Athletics Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budget			Variance -
	Original	Amended	Actual	Over
				(Under)
Revenues				
Local sources:				
Gate receipts	143,390	\$ 211,326	\$ 111,483	\$ (99,843)
Other	111,000	92,128	194,667	102,539
Total revenues	254,390	303,454	306,150	2,696
Expenditures				
Supporting services	724,557	744,133	767,627	23,494
Revenue under expenditures	(470,167)	(440,679)	(461,477)	(20,798)
Other financing sources				
Transfers in	470,167	440,679	488,999	48,320
Net changes in fund balances	-	-	27,522	27,522
Fund balances, beginning of year	3,272	3,272	3,272	-
Fund balances, end of year	\$ 3,272	\$ 3,272	\$ 30,794	\$ 27,522

Caledonia Community Schools
Child Care
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budget			Variance -
	Original	Amended	Actual	Over
				(Under)
Revenue				
Local sources:				
Child care	\$ 751,792	\$ 521,500	\$ 521,896	\$ 396
Interest	-	2,100	2,233	133
Total local sources	751,792	523,600	524,129	529
Expenditures				
Supporting services	751,329	555,970	528,715	(27,255)
Net changes in fund balances	463	(32,370)	(4,586)	27,784
Fund balances, beginning of year	60,944	60,944	60,944	-
Fund balances, end of year	\$ 61,407	\$ 28,574	\$ 56,358	\$ 27,784

Caledonia Community Schools
Community Services
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budget			Variance -
	Original	Amended	Actual	Over
				(Under)
Revenue				
Local sources:				
Interest	\$ -	\$ 1,700	\$ 1,882	\$ 182
Other	177,050	234,250	269,942	35,692
Total revenue	177,050	235,950	271,824	35,874
Expenditures				
Supporting services	177,050	216,167	206,242	(9,925)
Net changes in fund balances	-	19,783	65,582	45,799
Fund balances, beginning of year	21,939	21,939	21,939	-
Fund balances, end of year	\$ 21,939	\$ 41,722	\$ 87,521	\$ 45,799



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

November 1, 2006

Board of Education
Caledonia Community Schools
Caledonia, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Caledonia Community Schools, Caledonia, Michigan, as of and for the year ended June 30, 2006, which collectively comprise Caledonia Community Schools, basic financial statements and have issued our report thereon dated November 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Caledonia Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Caledonia Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 1, 2006

Board of Education
Caledonia Community Schools
Caledonia, Michigan

Compliance

We have audited the compliance of Caledonia Community Schools the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Caledonia Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Caledonia Community Schools' management. Our responsibility is to express an opinion on Caledonia Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Caledonia Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Caledonia Community Schools' compliance with those requirements.

In our opinion, Caledonia Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Caledonia Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Caledonia Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Caledonia Community Schools' ability to administer a major federal program in accordance with the applicable requirements of laws, regulations contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Caledonia Community Schools in a separate letter dated November 1, 2006.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style.

CALEDONIA COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2005	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2006
						(Memo Only) Prior Year(s)	Year Ended June 30, 2006	
U.S. Department of Agriculture								
Direct programs:								
Entitlement Commodities	10.550	41050	\$ 45,571	\$ -	\$ 45,571	-	\$ 45,571	\$ -
Bonus Commodities	10.550	41050	4,014	-	4,014	-	4,014	-
			49,585	-	49,585	-	49,585	-
Passed-through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch - breakfast	10.553	051970	3,099	-	3,099	-	3,099	-
National School Lunch - breakfast	10.553	061970	23,543	-	23,543	-	23,543	-
			26,642	-	26,642	-	26,642	-
National S/L Section 4 All Lunches	10.555	051950	9,075	-	9,075	-	9,075	-
National S/L Section 4 All Lunches	10.555	061950	59,066	-	59,066	-	59,066	-
National S/L Section 11 Free & Reduced	10.555	051960	14,953	-	14,953	-	14,953	-
National S/L Section 11 Free & Reduced	10.555	061960	106,049	-	106,049	-	106,049	-
			189,143	-	189,143	-	189,143	-
Total Child Nutrition Cluster			215,785	-	215,785	-	215,785	-
Total U.S. Department of Agriculture			265,370	-	265,370	-	265,370	-
U.S. Department of Education								
Passed-through the Michigan Department of Education:								
Title 1, Part A	84.010	051530-0405	98,496	98,496	98,496	98,496	-	-
Title 1, Part A	84.010	051530-0506	89,797	-	-	-	76,679	76,679
			188,293	98,496	98,496	98,496	76,679	76,679
Title IIA	84.367	050520-0405	79,047	79,047	79,047	79,047	-	-
Title IIA	84.367	050520-0506	78,345	-	-	-	75,384	75,384
			157,392	79,047	79,047	79,047	75,384	75,384
Title V	84.298	05025-0405	2,084	2,084	2,084	2,084	-	-
Title V	84.298	05025-0506	1,436	-	-	-	1,436	1,436
			3,520	2,084	2,084	2,084	1,436	1,436
Technology Literacy Challenge Grant	84.318	054290-0405	2,503	2,503	2,503	2,503	-	-
Technology Literacy Challenge Grant	84.318	054290-0506	1,675	-	-	-	1,675	1,675
			4,178	2,503	2,503	2,503	1,675	1,675
Passed-through the Kent Intermediate School District:								
IDEA Flow through	84.027	050450-0405	566,242	150,114	150,114	566,242	-	-
IDEA Flow through	84.027	050450-0506	610,390	-	605,692	-	605,692	-
			1,176,632	150,114	755,806	566,242	605,692	-
IDEA Transition	84.027A	040390-TS	1,666	(667)	-	1,666	-	(667)
IDEA Preschool	84.173	050460-0405	23,331	9,800	9,800	23,331	-	-
IDEA Preschool	84.173	060460-0506	26,853	-	26,853	-	26,853	-
			50,184	9,800	36,653	23,331	26,853	-
Safe and Drug Free Schools	84.186A	042860-0405	1,200	1,200	1,200	-	-	-
Safe and Drug Free Schools	84.186A	042860-0506	7,311	-	7,311	-	7,311	-
			8,511	1,200	8,511	-	7,311	-
Total U.S. Department of Education			1,590,376	342,577	983,100	773,369	795,030	154,507
U.S. Department of Health and Human Services								
Passed-through the Kent Intermediate School District:								
School based Medicaid	93.778	05-06	2,083	-	2,083	-	2,083	-
Total			\$ 1,857,829	\$ 342,577	\$ 1,250,553	\$ 773,369	\$ 1,062,483	\$ 154,507

CALEDONIA COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 – RECEIPTS AND REVENUE

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule of Expenditures of Federal Awards has been arranged to provide information on both actual cash received and the resultant revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

NOTE 2 – GRANT EXPENDITURES

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grants Section Auditors Report (7120) reconcile with this schedule.

Expenditures are reported on the Schedule of Expenditures of Federal Awards for all active awards. Accordingly, the Schedule presents expenditures for the current year grant which remains active beyond the end of the fiscal year because of the accounts receivable, deferred revenue, or accounts payable items.

CALEDONIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified on Financial Statements

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes x no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes x none reported

Noncompliance material to financial

statements noted?

_____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes x no

Reportable condition(s) identified not

considered to be material weaknesses?

 x yes _____ none reported

Type of auditor’s report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

_____ yes x no

Identification of Major Program

CFDA Number

Name of Federal Program or Cluster

Special Education Cluster

84.027

84.173

Special Education – Grants to States

Special Education – Preschool Grants

Dollar threshold used to distinguish

between Type A and Type B programs:

 \$ 300,000

Auditee qualified as low-risk auditee?

 x yes _____ no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

CALEDONIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2005-1

U.S. Department of Education

Special Education Cluster

CFDA #84.027 Special Education – Grants to States

CFDA #84.173 Special Education – Preschool Grants

Finding:

Teachers did not properly certify their participation percentage for actual time spent on the special education grants.

Effect:

Reasonable assurance is not being provided as to allocation of teacher's salaries to the special education grants.

Recommendation/comment:

Teachers who work 100% of the time at special education activities should sign certifications of participation percentages at least semi-annually. Teachers who work less than 100% of their time at special education activities should sign certifications on a monthly basis. In all cases, the certifications should be reviewed and signed for approval by an appropriate member of the District's management.

Management's response:

Procedures will be put in place to assure that teacher participation percentage certifications are completed as necessary and that they are reviewed and approved by an appropriate member of management.

SECTION IV – PRIOR YEAR FINDINGS

None